OCBC TREASURY RESEARCH

Asian Credit Daily

Thursday, November 7, 2019

Market Commentary

- The SGD swap curve bear-flattened yesterday, with the shorter tenors and belly traded 1-4bps higher, while the longer tenors were little changed.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 128bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 506bps. The HY-IG Index spread widened 4bps to 378bps.
- Flows in SGD corporates were heavy, with large ticket flows in SPHSP 4.0%-PERPs and CAPLSP 3.65%-PERPs. We also saw flows in TMGSP 4.8%'22s, AAREIT 3.6%'24s and STANLN 5.375%-PERPs.
- 10Y USTs fell 3bps to 1.83% on news that the phase one trade deal between the US and China might not be signed until December.

Credit Research

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Credit Summary:

- **Société Générale | Neutral (4):** SocGen reported its latest results with prior period challenges broadly persisting. Reported 3Q2019 and 9M2019 operating income was down 22.6% and 16.2% respectively y/y. While earnings saw challenges, SocGen's capital ratios continued to improve with the CET1 ratio at 12.5% as at 30 September 2019, up from 12.0% as at 30 June 2019 and 11.2% as at 31 December 2018. The CET1 ratio is now above its target CET1 ratio of 12% by 2020. It's TLAC ratio of 27.0% as at 30 September 2019 (25.8% as at 30 June 2019) continues to exceed the Financial Stability Board's 2019 and 2022 minimum requirements of 19.5% and 21.5% respectively. Results are supportive of our Neutral (4) issuer profile.
- **National Australia Bank Ltd | Positive (2):** NAB announced its FY2019 results. Cash earnings after tax and distributions were down 10.6% y/y to AUD5.1bn as customer-related remediation charges of AUD1.6bn were recognized in FY2019 (AUD360mn in FY2018). NAB's APRA compliant CET1/CAR ratio rose 18bps and 56bps y/y respectively to 10.38%/14.68% as at 30 September 2019. NAB's CET1 ratio is now below APRA's minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios in Australia's banking sector. We continue to review the numbers.
- **CITIC Envirotech Ltd | Neutral (5):** CEL and its immediate holding company CKM (Cayman) Company Limited ("Offeror") has jointly announced that the offeror has presented a formal proposal to seek the voluntary delisting of CEL. CEL has a sole perpetual outstanding, the CELSP 3.9%-PERP with an outstanding amount of SGD240mn and faces first call date in October 2020. Net-net, we think this is a credit positive event for CEL and would be sharing our thoughts in a credit update to follow.
- **First Real Estate Investment Trust | Negative (6):** FIRT announced its 3Q2019 results. Gross revenue was down 1.5% y/y to SGD28.8mn while net property income was down larger by 2.5% y/y to SGD28.2mn. We find adjusted EBITDA/(Interest plus 50% perpetual distribution) at 4.6x, still manageable. As at 30 September 2019, FIRT's reported aggregate leverage was 34.5%, in line with 30 June 2019. For now we maintain FIRT's issuer profile at Negative (6).

Credit Headlines

Société Générale ("SocGen") | Issuer Profile: Neutral (4)

- SocGen reported its latest results with prior period challenges broadly persisting. Reported 3Q2019 and 9M2019 operating income was down 22.6% and 16.2% respectively y/y. On an adjusted basis which excludes exceptional items and smoothing out of charges per linearisation of IFRIC 21 as classified by SocGen, underlying reported 3Q2019 and 9M2019 operating income was down 29.3% and 16.1% respectively y/y.
- Driving the performance was a larger fall in net banking income than the fall in operating expenses. Reported net banking income for 3Q2019 was down 8.4% y/y. This was largely driven by a substantial y/y fall in Corporate Centre results (comprises Group functions and costs related to property management, equity portfolio, and Treasury) due to the revaluation gain of Euroclear securities recorded in 3Q2018. Excluding the impact of the Corporate Centre, reported net banking income from SocGen's business units were down -3.7% y/y for 3Q2019.
- French Retail Banking net banking income continues to be weak (-3.6% y/y) due to lower fees and interest rates that offset loan volume growth while weaker performance in Global Banking and Investor Solutions (-7.6% y/y on ongoing restructuring, a weaker market environment particularly for equities and prime services and disposal of Belgian Private Banking) was the main drag on business unit net banking income. International Retail Banking and Financial Services continues to be resilient with net banking income stable y/y.
- Net banking income performance overshadowed a 4.1% y/y fall in operating expenses (-1.5% y/y excluding Corporate Centre) due to SocGen's cost reduction program which was influenced by restructuring activities in Global Banking and Investor Solutions and cost control throughout the wider group. Elsewhere, operating expenses rose slightly in French Retail Banking due to ongoing transformation while the rise in operating expenses in International Retail Banking & Financial Services continues to be related to business activity, with the segment generating positive jaws.
- As per results announcements by other banks under our coverage, risk costs rose y/y with 3Q2019 net cost of risk up 24.6% y/y. Net cost of risk rose in both International Retail Banking and Financial Services (higher in the Czech Republic and Africa) and Global Banking and Investor Solutions (absence of writeback from 3Q2018) but fell in French Retail Banking. These trends resulted in operating income for 3Q2019 falling y/y for all of SocGen's business units, down 13.3%, 3.7% and 31.6% respectively for French Retail Banking, International Retail Banking and Financial Services and Global Banking and Investor Solutions. The gross doubtful debt outstandings ratio and gross doubtful debt coverage ratio was stable q/q at 3.4% and 55% as at 30 September 2019. The gross doubtful debt outstandings ratio improved 40bps y/y from 3.8% as at 30 September 2018. Expressed as a fraction of loan outstandings, the 26bps cost of risk for 3Q2019 (24bps for 9M2019) is within SocGen's 2019 guidance of 25bps-30bps.
- While earnings saw challenges, SocGen's capital ratios continued to improve with the CET1 ratio at 12.5% as at 30 September 2019, up from 12.0% as at 30 June 2019 and 11.2% as at 31 December 2018. The CET1 ratio is now above its target CET1 ratio of 12% by 2020. Driving the q/q improvement was risk weighted asset reduction as well as earnings along with other positive impacts including SocGen's restructuring plan (disposals of Societe Generale Serbia, Societe Generale Montenegro and Mobiasbanca Societe Generale) that offset dividend provisions. It's TLAC ratio of 27.0% as at 30 September 2019 (25.8% as at 30 June 2019) continues to exceed the Financial Stability Board's 2019 and 2022 minimum requirements of 19.5% and 21.5% respectively.
- Results are supportive of our Neutral (4) issuer profile. (Company, OCBC)

Credit Headlines

National Australia Bank Ltd ("NAB") | Issuer Profile: Positive (2)

- NAB announced its FY2019 results for the year ended 30 September 2019 and somewhat similar to peers Westpac Banking Corporation and Australia & New Zealand Banking Group Ltd, performance was weaker y/y due to customer related remediation charges that were previously flagged. Cash earnings after tax and distributions were down 10.6% y/y to AUD5.1bn as customer-related remediation charges of AUD1.6bn were recognized in FY2019 (AUD360mn in FY2018). This offset the absence of restructuring related charges (AUD755mn in FY2018). NAB disclosed that customer-related remediation charges were recognized mostly in other operating income (AUD1.1bn) as well as operating expenses (AUD364mn) and net interest income (AUD72mn) and made up of:
  - Customer refunds and compensation for Wealth related issues including financial planning, wealth advice and consumer credit insurance sales (since discontinued);
  - Banking-related fees incorrectly charged; and
  - Costs for implementing remediation processes.
- Excluding customer-related remediation charges and other large notable items (capitalised software policy change, income tax benefit), cash earnings after tax and distributions were marginally up 0.8% to AUD6.5bn. This was due to a 1.1% y/y rise in net interest income (higher housing and business lending volumes and loan repricing mixed with lower net interest margins from ongoing competitive pressures, changes in the product mix and higher funding costs) and a 1.2% y/y rise in other operating income (lower fees and commissions that was mitigated by higher trading income). This was higher than the 0.4% rise in operating expenses as a 4.1% y/y rise in general expenses (technology, customer experience and compliance and control investment) was partially offset by a 2.1% y/y fall in personnel expenses (productivity benefits, lower performance based compensation) and a 1.4% y/y reduction in occupancy related expenses (branch closures and lease renegotiations).
- Credit impairment charges rose 18.0% y/y in FY2019. This was due to a 34.3% y/y rise in specific credit impairment charges from a small number of larger exposures in Corporate and Institutional Banking and the New Zealand dairy portfolio and new/increased charges for individual impaired exposures in Business and Private Banking. This was mitigated partially by a 9.2% y/y reduction in collective credit impairment charges as absence of model related changes and lower provisions in Australian unsecured retail mitigated higher charges for Australian mortgages and business lending. Overall loan quality appears to be under some pressure with the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances at a 5 year high, up 22bps to 0.93% due to higher stress in Australian mortgages. The ratio of net write-offs to gross loans and acceptances however remains stable y/y at 0.09%. The ratio of gross impaired assets to gross loans and acceptance rose 7bps to 0.33%

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Credit Headlines

National Australia Bank Ltd ("NAB") | Issuer Profile: Positive (2) [cont'd]

- In terms of performance by business segments, Consumer Banking & Wealth was down the most as expected with cash earnings after tax and distributions down 11.2% (lower margins and higher credit impairment charges). Business and Private Banking (business volumes offset by higher credit impairment charges and higher operating expenses) and Corporate and Institutional Banking (business volumes offset by higher credit impairment charges and lower Markets income) cash earnings after tax and distributions were down 2.4% and 2.1% respectively. Conversely, New Zealand Banking cash earnings after tax and distributions were up 8.1% y/y on lending growth
- NAB's APRA compliant CET1/CAR ratio rose 18bps and 56bps y/y respectively to 10.38%/14.68% as at 30 September 2019 as AUD1bn in proceeds from the 1HFY2019 underwritten dividend reinvestment plan (+25bps) and earnings growth (+80bps) was offset by dividend payments (-37bps), adverse regulatory impacts (-34bps) and customer remediation (-29bps). As a result of these negative impacts, NAB's CET1 ratio is now below APRA's minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios in Australia's banking sector (comes into force January 2020) although per NAB's results presentation the proforma CET1 ratio is expected to be 10.75% after factoring in a positive 37bps impact from a discounted and partially underwritten FY2019 final dividend reinvestment plan.
- With pressure on earnings, potential continued remediation costs and APRA's desire to strengthen the minimum loss-absorbing and recapitalisation capacity of Australian Banks, we expect capital management for NAB and its peers to be more active in the coming years with senior management and shareholders also bearing the burden. In line with this, NAB launched a new Tier 2 deal today following the earnings announcement. We continue to review the numbers (Company, OCBC)

Credit Headlines

CITIC Envirotech Ltd ("CEL") | Issuer Profile: Neutral (5)

- CEL and its immediate holding company CKM (Cayman) Company Limited ("Offeror") has jointly announced that the offeror has presented a formal proposal to seek the voluntary delisting of CEL, subject to fulfilment or waiver of the pre-condition including approvals and requisite fillings with the government and regulators including the National Development and Reform Commission, Ministry of Commerce and State Administration for Foreign Exchange within four calendar months.
- The Offeror is an indirect wholly-owned subsidiary of CITIC Environment Investment Group Co Ltd ("CITIC Environment"), the environmental services arm of CITIC Limited, a conglomerate which is majority controlled by CITIC Group, a central government state-owned enterprise, which also plays a role in executing public policy objectives. CITIC Limited holds a deemed 56.36%-stake in CEL. China Reform Fund Management Co., Ltd ("CRF"), a state-backed private equity firm has a deemed interest of 22.12%-stake in CEL (via investment funds). 0.6%-stake is owned by individual founders of the company while ~21%-stake is held by the public. As at 7 November 2019, CITIC Limited has a market cap of USD38.9bn.
- Assuming that the transaction is successful, 77.9%-stake of CEL would be indirectly owned by CITIC Environment while 22.1%-stake will be retained by CRF. We see a good likelihood that CEL would be taken private, with the company delisted as per intended.
- CEL has a sole perpetual outstanding, the CELSP 3.9%-PERP with an outstanding amount of SGD240mn and faces first call date in October 2020. There is no delisting put for this perpetual and perpetual holders would be holding a perpetual issued by an unlisted entity when the delisting comes through. In our view, the change of control clause also does not apply in this situation given that the Offeror is a CITIC Limited entity. Net-net, we think this is a credit positive event for CEL and would be sharing our thoughts in a credit update to follow. (Company, OCBC)

Credit Headlines

First Real Estate Investment Trust ("FIRT") | Issuer Profile: Negative (6)

- FIRT announced its 3Q2019 results. Gross revenue was down 1.5% y/y to SGD28.8mn driven by the decline in variable rent at its Indonesia properties while net property income was down larger by 2.5% y/y to SGD28.2mn following higher property expenses at Indonesia and South Korea.
- EBITDA (based on our calculation which does not include other expenses and other income) was SGD25.2mn, with finance costs declining by 7.7% to SGD5.1mn (3Q2018 finance cost included loan related costs), this has resulted in a stronger EBITDA/Interest of 5.0x (3Q2018: 4.7x and 2Q2019: 5.1x). Assuming FIRT pays out SGD3.4mn per year in perpetual distribution (SGD0.9mn per quarter) and taking 50% of this as interest, we find adjusted EBITDA/(Interest plus 50% perpetual distribution) at 4.6x, still manageable.
- As at 30 September 2019, FIRT's reported aggregate leverage was 34.5%, in line with 30 June 2019. Adjusting 50% perpetual as debt, we find that FIRT's adjusted aggregate leverage to be 36.6%. Encouragingly, day sales outstanding was less than 100 days at 74 days based on our estimation, continuing what we saw in 2Q2019 (67 days then). This indicates that its main tenant PT Lippo Karawaci had resumed payment terms that are more akin to historical levels after the lengthening in day sales outstanding through 2018.
- There is no debt due at FIRT until 2021 when SGD196.3mn of term loans come due and FIRT faces first call on its sole perpetual in July 2021 (SGD60mn outstanding).
- Five of FIRT's properties that are now on master leases expiring from August 2021 onwards and we expect negotiations to commence soon (if not already). Our base case assumes that the master leases would be renewed, albeit at weaker terms than current. Further constraining FIRT's issuer profile is its reliance on PT Lippo Karawaci Tbk ("Lippo", Issuer profile: Unrated) for rental income (makes up more than 80% of rent).
- For now we maintain FIRT's issuer profile at Negative (6). We may upgrade FIRT's issuer profile should (1) Lippo's credit profile markedly improve to a level suggestive of Neutral (5) and/or (2) FIRT reduces its reliance on income from Indonesia (and thereby Lippo credit risk). It is worth noting that since March 2019, Lippo's credit profile had appear to stabilised (as indicated by its external credit rating and bond price performance). (Company, OCBC)

Key Market Movements

	7-Nov	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	64	-4	-14
iTraxx SovX APAC	29	-1	-7
iTraxx Japan	56	-3	-6
iTraxx Australia	57	-3	-12
CDX NA IG	52	-3	-9
CDX NA HY	108	0	1
iTraxx Eur Main	49	-2	-8
iTraxx Eur XO	234	-6	-19
iTraxx Eur Snr Fin	58	-2	-10
iTraxx Eur Sub Fin	118	-7	-25
iTraxx Sovx WE	12	0	-1
USD Swap Spread 10Y	-8	1	0
USD Swap Spread 30Y	-38	1	1
US Libor-OIS Spread	34	-2	0
Euro Libor-OIS Spread	5	-1	1
China 5Y CDS	37	-4	-13
Malaysia 5Y CDS	40	-4	-14
Indonesia 5Y CDS	73	-3	-21
Thailand 5Y CDS	26	-1	-4
Australia 5Y CDS	17	0	-3

	7-Nov	1W chg	1M chg
Brent Crude Spot ($/bbl)	61.74	1.86%	5.77%
Gold Spot ($/oz)	1,491.14	-1.44%	-0.16%
CRB	180.51	1.23%	4.28%
GSCI	416.93	1.26%	4.44%
VIX	12.62	2.35%	-29.34%
CT10 (%)	1.814%	12.25	25.55
AUD/USD	0.688	-0.25%	2.14%
EUR/USD	1.107	-0.75%	0.88%
USD/SGD	1.360	0.01%	1.53%
AUD/SGD	0.936	0.26%	-0.62%
ASX 200	6,704	0.62%	2.15%
DJIA	27,493	1.13%	3.83%
SPX	3,077	0.98%	4.70%
MSCI Asiax	664	2.94%	8.31%
HSI	27,689	3.83%	7.23%
STI	3,263	1.02%	5.27%
KLCI	1,603	0.33%	2.84%
JCI	6,218	-1.24%	3.62%
EU Stoxx 50	3,689	1.89%	6.27%

Source: Bloomberg

New Issues

- Haitong International Securities Group Ltd priced a USD400mn 5.5-year bond at T+160bps, tightening from IPT of T+190bps area.
- Guangzhou Metro Investment Finance (BVI) Limited (Guarantor: Guangzhou Metro Investment Finance (HK) Limited; Keepwell and EIPU Provider: Guangzhou Metro Group Co., Ltd) priced a USD200mn 5-year bond at T+97.5bps, tightening from IPT of T+135bps area.
- Zhengzhou Urban Construction Investment Group Co., Ltd priced a USD300mn 3-year bond at 3.8%, tightening from IPT of 4.25% area.
- Sun Hung Kai & Co. (BVI) Limited (Guarantor: Sun Hung Kai & Co. Limited) priced a USD350mn 5-year bond at 5.75%, tightening from IPT of 5.85% area.
- Chengdu Jiaozi Financial Holding Group Co., Ltd priced a USD300mn 3-year bond at 3.24%, tightening from IPT of 3.75% area.
- Changsha Pilot Investment Holdings Group Co., Ltd scheduled investor meetings commencing 6 Nov for its proposed USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
6-Nov-19	Haitong International Securities Group Ltd	USD400mn	5.5-year	T+160bps
6-Nov-19	Guangzhou Metro Investment Finance (BVI) Limited	USD200mn	5-year	T+97.5bps
6-Nov-19	Zhengzhou Urban Construction Investment Group Co., Ltd	USD300mn	3-year	3.8%
6-Nov-19	Sun Hung Kai & Co. (BVI) Limited	USD350mn	5-year	5.75%
6-Nov-19	Chengdu Jiaozi Financial Holding Group Co., Ltd	USD300mn	3-year	3.24%
5-Nov-19	Kaisa Group Holdings Ltd	USD150mn	KAISAG 10.875%'23s	12.0%
5-Nov-19	HSBC Institutional Trust Services (Singapore) Limited (acting as trustee of AIMS APAC REIT)	SGD100mn	5-year	3.6%
4-Nov-19	POSCO	USD500mn	3-year	T+97.5bps
4-Nov-19	Sinopec Group Overseas Development 2018 Ltd	USD700mn USD1.0bn USD300mn	5-year 10-year 30-year	T+93bps T+122.5bps 3.44%
4-Nov-19	Hongkong International (Qingdao) Company Limited	USD300mn	3-year	3.90%
4-Nov-19	Vanke Real Estate (Hong Kong) Company Ltd	USD423mn USD300mn	5.5-year 10-year	T+160bps T+183bps
4-Nov-19	Kaisa Group Holdings Ltd	USD300mn	4NC2	11.95%
4-Nov-19	Greentown China Holdings Limited	USD600mn	364-day	4.55%

Source: OCBC, Bloomberg

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